

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

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FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 1281

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TAGS: ECON, CI

SUBJECT: WHO IS TO BLAME FOR CHILE'S INFLATION?

1. SUMMARY: A HEATED POLEMIC HAS ERUPTED IN SANTIAGO BETWEEN SMALL TRADESMEN AND PRODUCERS OVER WHO IS RESPONSIBLE FOR CHILE'S GALLOPING INFLATION. THE SMALL TRADERS/WHOLESALERS CLAIM THEY WILL ACCEPT NO PRICE INCREASE FROM SUPPLIERS OF MORE THAN 8 PERCENT THROUGH THE END OF DECEMBER. PRODUCER REPRESENTATIVES HAVE COUNTERATTACKED CLAIMING THAT HIGH RETAILER MARGINS COULD BE REDUCED. AT SAME TIME, PRODUCERS ARE STEPPING UP DIRECT SALES TO PUBLIC. GOC HAS THUS FAR STAYED OUT OF THIS FIGHT BUT HAS REITERATED THAT IT HAS NO INTENTION OF CHANGING ITS ECONOMIC POLICIES. END SUMMARY.

2. IN MID NOVEMBER RAFAEL CUMSILLE, HEAD OF THE FEDERATION OF SMALL RETAILERS, ANNOUNCED PUBLICLY THAT MEMBERS OF HIS ORGANIZATION WOULD REFUSE TO ACCEPT MERCHANDISE WHICH HAD PRICE INCREASES EXCEEDING 8 PERCENT IN NOVEMBER-DECEMBER. IN HIS "DECLARATION OF WAR ON INFLATION" CUMSILLE SPOKE AT LENGTH ABOUT MONOPOLISTIC PRACTICES IN SOME SECTORS WHICH HAD BEEN MAJOR FACTORS IN THE MORE THAN 350 PERCENT RISE IN CHILE'S CONSUMER PRICE INDEX OVER PAST YEAR. HE SPECIFICALLY CRITICIZED "BIG" INDUSTRY FOR FAILURE TO PROVIDE CREDIT TO RETAILERS AND

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FOR REFUSING TO SELL SUPPLIES TO SOME SMALL MANUFACTURERS.

ALTHOUGH NOT SPECIFICALLY STATED, CUMSILLE IMPLIED THAT GOVERNMENT PRICE CONTROLS SHOULD BE REINSTITUTED ON SOME PRODUCTS TO REDUCE INFLATION AND ELIMINATE PRICE GOUGING.

3. CUMSILLE'S PROPOSAL STRUCK A RESPONSIVE CHORD IN TWO OTHER SMALL RETAILER/WHOLESALE AND SMALL MANUFACTURERS GROUPS, CONUPIA AND SIDECO, WHICH ADOPTED CUMSILLE'S PRICE CONTROL SCHEME. BOTH STRESSED THAT THEIR MEMBERS WERE HAVING VERY HARD TIMES BECAUSE HIGH PRICES HAD CUT HEAVILY INTO RETAIL SALES.

4. THE PRESIDENT OF CHILE'S MANUFACTURERS' ASSOCIATION (SOFOFA), RAUL SAHLI, REPLIED TO CUMSILLE ALMOST IMMEDIATELY, ACCUSING SOFOFA'S CRITICS OF HAVING "AN ATTACK OF NERVES". SAHLI SAID PRICE RISES ARE FORCED ON MANUFACTURERS BY RISING COSTS. HE POINTED OUT THAT RETAIL MARKUPS ARE OFTEN QUITE HIGH AND MERCHANTS HAVE THE OPPORTUNITY TO REDUCE PRICES IF THEY WISH BY LOWERING THEIR MARGINS. HE QUESTIONED CUMSILLE'S MOTIVIES IN TRYING TO PUT THE BLAME FOR INFLATION ON ONE PARTICULAR ECONOMIC GROUP. CHILE'S LARGEST PRIVATE COMPANY, PAPELES Y CARTONES, ALSO RESPONDED TO CUMSILLE'S ATTACK.

5. GOC MEANWHILE HAS MAINTAINED DISCREET SILENCE. IT CONTINUES TO MAKE THREATENING NOISES ABOUT PROSECUTION OF THOSE ENGAGED IN MONOPOLISTIC PRACTICES BUT IN FACT HAS NOT DONE MUCH. THERE HAVE BEEN REAFFIRMATIONS (MOST RECENTLY BY JUNTA MEMBER GENERAL LEIGH) THAT GOC WILL CONTINUE ITS PRESENT ECONOMIC POLICIES -- AND THIS DOES NOT INCLUDE FURTHER PRICE CONTROLS.

6. WHILE RETAILER GROUPS REPORTEDLY HAVE BEGUN TO BOYCOTT GOODS WITH RECENT LARGE PRICE RISES, SOME PRODUCERS ARE EXPANDING DIRECT SALES TO PUBLIC. FOR EXAMPLE, LOCAL TRUCK FARMERS ARE BEING PERMITTED TO SET UP STREET MARKETS AND ONE LARGE CLOTHING MANUFACTURER HAS CLOSED HIS DOWNTOWN STORES AND IS CONCENTRATED ON FACTORY OUTLET SALES. SOFOFA AND CUMSILLE WERE SCHEDULED TO BEGIN DIRECT TALKS DEC 2 TO SEEK SOME KIND OF AGREEMENT.

7. COMMENT: THERE IS PRICE GOUGING BY SOME CHILEAN MANUFACTURERS. IT IS ALSO TRUE THAT MOST RETAILERS HERE OPERATE ON LOW VOLUME AND HIGH MARKUP. WHILE BOTH OF THESE ARE UNDESIRABLE PRACTICES, UNCLASSIFIED

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NEITHER IS REALLY RESPONSIBLE FOR CHILE'S GALLOPING INFLATION. GOVERNMENT ECONOMISTS REALIZE THAT REAL CULPRIT IS LARGE GOVERNMENT BUDGET DEFICIT AND ARE WORKING HARD TO HOLD DOWN DEFICIT FINANCING IN 1975.

8. IT IS POLITICALLY SIGNIFICANT THAT THIS POLEMIC IS BEING CONDUCTED BY TRADE ASSOCIATIONS, (GREMIOS) WHICH FORMED VANGUARD OF OPPOSITION TO ALLENDE GOVT AND NOW ARE STANFORD

SUPPORTERS OF MILITARY JUNTA. GOC CERTAINLY DOES NOT WISH TO CHOOSE SIDES OR TO CRACK DOWN ON ALL PARTIES. DELICACY OF SITUATION PROBABLY PROMPTED RESPECTED GREMIO IDEOLOGUE JAIME GUZMAN, "FATHER" OF THE CORPORATIST PHILOSOPHY OF THESE ASSOCIATIONS, TO MAKE EARLY DECEMBER PLEA FOR PEACE AND UNITY IN GREMIOS. IN RECENT DAYS PRESS AND GREMIO LEADERS HAVE EVIDENTLY RECOGNIZED POLITICAL DANGERS OF CONTINUED DIVISION, HAVE STOPPED TRADING PUBLIC BLOWS AND HAVE CALLED FOR JOINT ACTION ON ECONOMIC PROBLEMS FACING NATION.
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